

Sixth Bi-monthly Monetary Policy Update, 2022-23

February, 2023

The Monetary Policy Committee (MPC) decided to increase the key policy repo rate by 0.25% to 6.50% by 4:2 majority. The MPC maintained Policy stance on withdrawal of accommodation. The MPC will continue its vigil on inflation outlook so as to ensure that it remains within the tolerance band and progressively aligns with the target. It ensures price stability & supporting growth.

Indian economy dealt with multiple shocks in the last three years and emerged stronger than before. India has the inherent strength and enabling policy environment and strong macroeconomic fundamentals to deal with the future challenges.

Key Outcome

- This is the sixth time interest rate has been hiked by the Reserve Bank of India (RBI) since May 2022 last year, taking the total quantum of hike to 250 basis points.
- The policy repo rate under the liquidity adjustment facility (LAF) was increased by 0.25% to 6.50%.
- Consequently, the standing deposit facility (SDF) rate stands adjusted to 6.25% and the marginal standing facility (MSF) rate and the Bank Rate to 6.75%.

GDP Growth Forecast

- The real GDP growth for FY23 Projected at 7%.
- The real GDP growth forecast for FY24 at 6.4%.

Inflation Expectation

- FY23 Inflation Projection at 6.5%.
- Inflation Forecast for FY24 at 5.3%.

RBI some key Observations

- Current Account Deficit is expected to moderate in Second Half of FY24.
- Rural demand showing signs of improvement; Indicators point to a strengthening of activity
- Discretionary Spending on services reviving.
- Investment activity continues to gain traction, Signs of Additional capacity made in some sector.
- Nonfood Bank credit rose 16.7% as on Jan 27, 2023.
- RBI will remain flexible to meet needs of economic Activity
- RBI will be flexible on liquidity front. Banking system no longer faces excess liquidity.
- Inflation has shown sign of moderation, the worst is behind, but core inflation is still sticky, and growth is still strong.
- INR (Rupee) remains least volatile currency against other Asian peers in FY23. Depreciation of Rupee far lower than during taper tantrum.
- Monetary transmission is picking up in India.
- The unprecedented events put the monetary policy to test across the world.
- The world is looking towards India to energise global partnership in several critical areas.
- The Global outlook remains clouded by geopolitical tensions & oil prices.

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Other announcements

- To Introduce draft guidelines of levy of penal Charges.
- To Issue guidelines on acceptance of green deposits.
- Gilts market hours restored to 9 am to 5 pm.
- Propose to permit lending & borrowing of G-sec.
- Our financial system must build resilience to climate change.
- To Issue norms on addressing climate- related financial risk.

Conclusion

The Reserve Bank of India (RBI) hiked the repo rate by 25 bps taking the repo rate to 6.50%. The MPC's decision to hike policy rates comes against the backdrop to curtail Inflation within target range of 4%. The move was as per market expectation. The real GDP growth forecast for FY23 has been retained at 7%, the inflation projection for the year (FY23) has been retained at 6.5%. The future Rate decision will be data dependent & RBI Refrained to give guidance but the mood shows Optimism.

MPC is of the view that further calibrated monetary policy action is warranted to keep inflation expectations anchored, break core inflation persistence and thereby strengthen medium-term growth prospects.

We believe, the existing borrowers might be affected by the latest increase, whereas new borrowers will be required to borrow money at higher interest rates. It might make retail loans such as Home, auto, Personal Loans & Others Costlier, and borrowers might have to be ready for higher monthly EMI or tenor extensions, or both face demand challenges as rate cycle has turn northward. The minutes of the MPC's meeting will be published on February 22, 2023. The next meeting of the MPC is scheduled during April 3, 5 & 6, 2023.

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